Clean Science and Technology Limited
innovation at work

23.05.2023

To,

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

Subject: **Transcript of conference call on the Company's Q4 and year ended 31st March, 2023 Earnings**.

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

Dear Sir/Madam,

In terms of the referred Regulation 30 read with Schedule III - Part A to the Listing Regulations, we are enclosing herewith the transcript of conference call on the Company's Q4 and year ended 31st March, 2023 Earnings held on 18th May, 2023.

You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

MAHESH ARVIND KULKARNI
Digitally signed by MAHESH ARVIND KULKARNI
Date: 2023.05.23 17:59:16 +05'30'

Mahesh Kulkarni
Company Secretary

Encl: as above

Clean Science and Technology Limited

Q4 FY 23 Earnings Conference Call

May 18, 2023

MANAGEMENT: **MR. SIDDHARTH SIKCHI – PROMOTER AND EXECUTIVE DIRECTOR – CLEAN SCIENCE AND TECHNOLOGY LIMITED**
MR. SANJAY PARNERKAR – CHIEF FINANCIAL OFFICER – CLEAN SCIENCE AND TECHNOLOGY LIMITED
MR. PRATIK BORA – VICE PRESIDENT, FINANCE – CLEAN SCIENCE AND TECHNOLOGY LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Clean Science and Technology Limited Q4 FY23 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you, and over to you, Ankur.

Ankur Periwal: Yes. Thanks, Ryan. Good afternoon and welcome to Clean Science and Technology Limited's Q4 FY23 Conference Call. The call, as usual, will be initiated with a brief management discussion on the quarter and full year performance, followed by an interactive Q&A session. Management team will be represented by Mr. Siddharth Sikchi, Promoter and Executive Director; Mr. Sanjay Parnerkar, Chief Financial Officer; and Mr. Pratik Bora, Vice President, Finance. Over to you, Siddharth, for your initial comments.

Siddharth Sikchi: Thank you, Ankur and good evening, everyone. First of all, I would like to thank all of you for taking time out to attend our Earnings Call for FY 23. I am very happy to connect with all of you again to discuss the performance of our company in the financial year FY 23 and pleased to inform that it has been a very strong performance by the company, recording its highest-ever revenue, EBITDA, and PAT for a financial year amidst the global macro challenges and volatile raw material prices.

Also, as mentioned in the last call, our manufacturing plants for HALS, Hindered Amine light Stabilizers 701 and 770 that got commercialized in our Unit 3 in mid of November has stabilized and ramping up as per our scheduled time frame. We have received good response from the domestic markets and recorded our maiden sales in Q4 FY '23. We aim to increase our sales gradually in the coming months as we look forward to add new premium accounts in the domestic markets and make headway in the export market. Like most of our products, we are proud that HALS has been manufactured for the first time in India and Clean Science as of now is the only manufacturer of this product in India.

A little on financial highlights. This is the second consecutive year-on-year growth of more than 35% as total revenues recorded in FY '23 of INR 936 crores, increased by 37% over FY '22. As compared to FY '22 in FY '23, the exports revenue grew by 40% and domestic revenue grew by 30%. Revenue mix was 72% export and 28% domestic.

EBITDA increased to INR 403 crores as against INR 300 crores, growth of 34% year-on-year. Input prices continued to be volatile throughout the year, but moderated and stabilized in H2 FY '23, leading to strong margin recovery during this period. As a result, EBITDA margins at 44% remained stable at almost the same level as last year. PBT at INR 405 crores and PAT at INR 304 crores, both grew by 33% as compared to FY '22.

At INR 191 crores, approximately, the company incurred the highest capex in a financial year in the history of the company. In spite of the capex undertaken during the year, our balance sheet continues to be debt-free with cash balance of approximately INR 300 crores.

CRISIL recently upgraded the company's long-term rating to CRISIL AA- Stable and reaffirmed the short-term rating to CRISIL A1+. For the year, our ROCE was 50% and RONW was 30%. Our commitment to dividend distribution policy is highlighted by the fact that this was the first year, we announced an interim dividend of 200%. In addition to this, the Board has recommended a final dividend of 300% also.

For FY '23, sales improvement was led by a combination of good volume growth and improved realization across all products. For this year, Performance Chemical, Pharma & Agro, and FMCG Chemicals contributed 69%, 19% and 11%, respectively, to the revenues.

Derisking of revenue continues with the addition of new products and new customers. New products now contribute to 9% of total revenues in FY '23 as compared to 4% in FY '22. Contribution from Americas and Europe region is also increasing steadily.

We have incurred capex of INR 191 crores during FY '23, with majority of this going towards our new plants for HALS in Unit 3 and upgrading of our existing equipment for efficiency improvement. Of this INR 65 crores were invested in our subsidiary Clean Fino-Chem, CFCL, and all capex continues to be incurred through our internal accruals only. The construction activity at Clean Fino-Chem Limited is on track. Various activities in this regard like site layout, initial civil construction, and allied activities are progressing well.

Since inception, we as a company are fully committed to sustainability and continuously implement several initiatives across the organization. We are continuously upgrading our facilities and investing in various new technologies across all our manufacturing units that help us increase our energy efficiencies and improve our focus on 3Rs of reduce, recycle, and reuse. Our initiative has helped us significantly to reduce water, energy consumption, and emissions. We continue to increase our share of renewable energy. During the year, our third solar plant was capitalized with 5-megawatt capacity, taking our total solar capacity to 17.4 megawatts. We are committed to continually implement globally benchmarked ESG practices and sustainability is an integral part of our strategy. Under CSR, our core focus area remains to promote education, environment sustainability, and health care.

With a new series of products and a strong R&D pipeline, we continue to focus on diversifying our product portfolio and expanding our geographical presence. HALS series and a couple of new interesting products are expected to commercialize during the year, which will add to the existing product portfolio. We have implemented all our projects on time and are pretty confident that our new facility of CFCL will also be commercialized as committed. Our strong financials, strengthening product portfolio, automated manufacturing facilities, global capacities, focus on constant innovation and sustainability by applying clean chemistry provide us with a solid foundation to create a sustainable road map, enabling us to deliver consistent growth going forward. Thank you so much.

Moderator: Thank you. Our first question comes from the line of Sanjesh Jain with ICICI Securities. Please go ahead.

Sanjesh Jain: I got a few questions. First, on the capex, we did INR193 crores this year. I think majority of it will be in the Unit 3. Can you help us understand what is left for next two years in terms of capex in Unit 3 and Unit 4?

Pratik Bora: Yes, Sanjesh. Pratik, this side. In terms of capex in the parent company, there will be a very small maintenance capex. But in the subsidiary company, this year, the capex could be INR 180 odd crores and incremental capex will be announcing by Q3 or Q4 that will go for the next line of series of products.

Sanjesh Jain: Now this subsidiary capex, it is in the Unit 4?

Pratik Bora: Unit 4. Unit 3 is in the parent company.

Sanjesh Jain: Okay. Got it. And this INR 180 crores will be largely towards?

Pratik Bora: Yes. Majority of that will be incurred this year. This will be primarily towards HALS.

Siddharth Sikchi: Sanjesh, when we are implementing these capex, it is also for the site development, which helps us when future products come online.

Sanjesh Jain: So it includes utility, infra and all those things, plus the capacity?

Siddharth Sikchi: The admin building. It includes the infrastructure, common ETP. It includes solvent storage tanks, the utility block like the boiler houses, the thermo plant, nitrogen plant. So it's the common infra, the overall site development, along with HALS. So when the newer facilities come up, the capex is lower because this basic infrastructure is already covered under the capex because it's a greenfield project.

Sanjesh Jain: So incremental capex will largely go towards production block for a particular product? Got it. Just to understand, in the first phase of commissioning of HALS, we did 3,000 metric tons, which you mentioned previously. And how much we will be adding in this next round of capacity?

Siddharth Sikchi: No. So the capex in Unit 3 is about 2,000 tons, not 3,000 tons. That is one. And two is the totality of HALS will be close to 15,000 tons. And it is a combination of a variety of products, not just one product, but all within the range of HALS.

Sanjesh Jain: And when we say 15,000, how many years are we factoring here?

Siddharth Sikchi: Three to four years. I mean, the plant will be of these sizes, but of course, gaining the market share and utilization will take about three to four years' time.

Sanjesh Jain: Got it. Got it. And the average realization is close to $8 to $10, right?

Siddharth Sikchi: Right. You can assume that.

Sanjesh Jain: Fair enough. Second, on the margin guidance and what we have delivered, I remember it probably the end of second quarter, we guided like we will be stable at 40%. In two quarters, we have done phenomenally well, no complaints. But do you want to relook at the margin guidance from the medium term with 48% this quarter, how should one see the margins for next two years?

Pratik Bora: Sanjesh, in terms of margin for parent company, there will be relatively steady state of margin. But of course, I mean, you can't extrapolate Q4 margins because this quarter, we were benefited with the benign raw material prices also. In the subsidiary company, the margins, as you would imagine, would improve as the utilization levels improve.

Sanjesh Jain: Got it. But I thought the China situation has turned slightly more aggressive for the commodity and the prices are going to fall more is what I can understand and what has been some of the commentaries from your peer who produces your raw material. So in the near term, it is fair to assume that margins will remain robust, considering that the raw material cycle is quite favorable for Clean Science?

Siddharth Sikchi: So I'll tell you the raw material prices are definitely falling. Of course, there is stiffer competition because everything has opened up. So there will be more competition compared to what we had over the last few quarters, but also the commodity cycles, the prices of commodity chemicals, for instance, phenol has fallen as high as 30%. So we will definitely be benefited by that. But of course, there will also be market price reduction of our end product following the market trend.

Sanjesh Jain: Got it. So what should be a steady state margin, Siddharth, in the parent business?

Siddharth Sikchi: So Sanjesh, the prices are reducing. But also, the overall global demand is slightly reducing because of Europe factor, because of the U.S. factor. So you will have to give me one quarter or two quarters to really give you a correct picture of what you should look at in the longer-term.

Sanjesh Jain: Fair enough. One last question, Siddharth. I'm not dragging, but just one last. This year, particularly this quarter, the volume growth looks quite softish considering what we have delivered in the last three quarters. Can you help us ascertain whether it's a pricing decline or volume was slightly under pressure, though we have pulled the margin? What has happened and what is the story on the revenue side?

Siddharth Sikchi: The basic story is that a lot of MNCs, a lot of our customers were holding stocks because everybody was really worried about another lockdown or any other scenario. However, over the last two quarters that fear of any lockdown is all ruled out. The freight costs have minimalized, and they have come to pre-COVID levels.

So now if you see this last quarter and maybe Quarter 1, there will be a lot of destocking happening at lot of our customer places. And hence, everybody is trying to reduce their stock levels, which everybody had amplified during the COVID year. So that is what you are seeing that there is a slight reduction in volume. And of course, because of the commodity price falling, there is a realistic expectation of finished products prices also going down.

Sanjesh Jain: Got it. Fair enough. Thanks for answering all those questions and best of luck for the coming quarters.

Siddharth Sikchi: Thank you.

Moderator: Our next question comes from the line of Arun Prasath with Avendus Spark. Please go ahead.

Arun Prasath: Good evening. Thank you for the opportunity. Siddharth, just continuing the discussion on this growth, especially on the FY '23. We had a stellar year for the top end growth of close to 35 percentage. Obviously, this has three components; the exchange rate, the rupee depreciation aspect, pricing has clearly helped as compared to '22, and then the volume growth. And going by the current commentary, it looks like the two of the three components are not going to be there in this year. So will the volume growth alone will result in a sustenance of our top line? How should we look at this?

Siddharth Sikchi: See, there are two aspects to it. In a typical business cycle, you typically get such one or two quarters when such operation occurs where there is destocking happening or where there is a lower demand. But these quarters are also useful for consolidation. I mean these are the quarters which separate us or I mean, separate the fittest. There is a lot of froth in the market, which also disappears. These are also the times when we keep working on our processes because we have time to repair, do maintenance of our plants as well. So these times are utilized for these activities.

However, I do not see that such parameters of Quarter 1 will be for entire year. Probably there will be an improvement in Quarter 2 or Quarter 3 and where we anticipate that the volume growth will again return. Of course, if the commodity price still remains low and if the crude oil price remains below $75 a barrel. And of course, if the commodity chemical prices are lower, then we do expect the finished product prices also to remain low. However, in absolute terms, in terms of volumes, if in Quarter 3 and Quarter 4, the volumes recover, then I think we are good to go.

Pratik Bora: Rupee depreciation did not benefit us largely because we undertake hedging. So actually, for first half, we reported negative forex. There was no forex gain per se, in H1.

Arun Prasath: Okay. So that means this year, we can expect some benefit because you would have hedged the much higher rates now.

Pratik Bora: Yes, relatably, we should be. Yes.

Arun Prasath: Understood. And then on the volume growth, Siddharth, just a follow-up question on that. Do you see any of your customers in, say, acrylic acid or its derivatives adding capacity and the capacity coming online this year?

Siddharth Sikchi: No. Nobody is adding capacity. Everybody is trying to consolidate. And I think that is what I just mentioned that this year would be a consolidation year for several of the businesses.

Arun Prasath: Understood. And last time, in the previous call, you mentioned that you are targeting 100 tons per month of HALS once you commission. How realistic we are now, how closer to this target at this point of time?

Siddharth Sikchi: So I mentioned that we should target about 100 tons per month after a year of production or successful commercialization. So by the end of the year is what we are anticipating to touch that volume, provided the import still remains at about 250 to 300 tons. I mean on the relative market terms; we will get about 1/3 of Indian markets. So prices have reduced because of the master batches consumption reducing, but I still am hopeful that we will be able to touch or gain 30% of Indian market.

Arun Prasath: Right. And what about the initial feedback from the customers, master batch customers? What is it there?

Siddharth Sikchi: We have had no rejection even on samples. A lot of places we have given test, I mean, pilot samples, which have been approved at a lot of big accounts. And we have now started supplying in tonnages, so I think that's a very good sign. In fact, as we are speaking, we are also trying to open up in Europe and are trying to speak to some customers in Europe. Recently, we got approved at a global account who are based in multi-country. So the response is very good, and I think once we start our other premium grades of HALS, which are more expensive grades, I think the response will be faster.

Arun Prasath: And in India, domestic, we have already touched base with all the leading master batch manufacturers or just?

Siddharth Sikchi: More or less. We have touched base with all of them. Some are in the approving phase; some have approved us. But I think all in all, the feedback from customers is that, I mean, they are really delighted to have a local supplier based in India because it is a key component in their entire master batch which nobody has been able to successfully deliver to the quality at par with global standards.

Arun Prasath: Understood. That's very helpful, Siddharth. Just squeezing one last question for Pratik. Of the INR190 crores capex we have done this year; in parent company, we have done close to INR120 crores. Of that, how much is related to the HALS in Unit 3?

Pratik Bora: Close to INR50 crores, but this I'm talking only about the production block.

Arun Prasath: Understood. Okay. Thank you very much. All the best for you guys.

Moderator: Our next question comes from Ankur Periwal with Axis Capital Limited. Please go ahead.

Ankur Periwal: First question on the inventory situation, which you mentioned is slightly elevated. Just curious if this is a specific phenomenon maybe in the domestic market or you are seeing the same in export market as well? Given that on a quarterly basis, at least we see especially on a quarterly run rate basis, Q4 is slightly softer on the domestic side.

Siddharth Sikchi: So this we are anticipating, ultimately, we are all related to each other. Even if there is a global slowdown or a global destocking, it also impacts my customer if they are based in India because ultimately, either they are exporting or using it for domestic market. So the answer remains that this is a phenomenon which is occurring global, including us.

So even in some places where we had very key large deals, which were like very important for our company, where the stocks we had raised to 3x levels because of all these turmoil of transit. Now that we have realized that everything has returned to normalcy, even we have started reducing our stock in line with our pre-COVID levels.

Ankur Periwal: Sure. And second thing, you did mention that the RM prices are coming down. And obviously, there will be some pass-through of this RM deflation. Has it already started happening or is it probably still some time for that to happen?

Siddharth Sikchi: So it has already started. So what happens is when the market is soft and when the commodity prices have steeply fallen, there is a very obvious expectation from customers to get a lower price.

Ankur Periwal: Sure. The reason I asked that was that earlier probably people would have, or normally industry would have likely elevated inventory and potentially there could have been some higher cost rating inventory on the books. But in our margins, that was not the case even the gross margin expansion. So just curious on that side. Yes. So where I'm coming from, is the gross margin expansion also only a function of RM deflation, lower RM cost or it's also a function of better production?

Pratik Bora: Yes. So Ankur, we don't carry a very high inventory. It's less than 30 days. So the gross margin benefit is because of the lower RM cost and, of course, better product mix.

Ankur Periwal: Yes. Got it. And just lastly, on the HALS side, 701 and 770 largely focusing on the domestic market, but you did mention expansion into Europe as a market and tapping the international customers. From a distribution network point of view, is it in place or is it work in progress and any timelines you can share there?

Siddharth Sikchi: Sorry, 701 is not an Indian market product. It is mostly export. 770 is domestic. However, the point is that by December, when we come up with the entire other basket, it will have global markets. So we are trying to start marketing and having distribution network globally. So by December, January, when we have these two products in line, the market network is already in place.

Ankur Periwal: Sure. And have we started producing the samples for the other HALS range of products as well, which will go as a part of the pilot right now?

Siddharth Sikchi: No, people are not interested in pilot samples because these are very key ingredients in their supply chain. So they would want to test only the commercial samples. And the same is the case with Indian suppliers also.

Ankur Periwal: Okay, fair enough. That's it from my side. Thank you.

Moderator: Our next question comes from Abhijit Akella with Kotak Securities. Please go ahead,

Abhijit Akella: Just a few things to clarify. One was on HALS; these 15,000 tons. Should we expect that all of it comes on stream by December this year itself or will it be gradually spaced out?

Siddharth Sikchi: What happens in a chemical plant is, when we set up a facility, I mean, if we have installed capacity of 15,000 tons, it is very difficult to split into fragmented capacities. However, the utilization will be very low when we begin this, because, of course, the market has to absorb these capacities. So the installed capacity, the capex is already made for these 15,000 tons. However, the realization will start as and when the market picks up.

Abhijit Akella: Understood. And the total capex towards the entire 15,000 tons would be approximately how much?

Siddharth Sikchi: Approximately INR 300 crores, which also includes the site development, which I just mentioned in the first question.

Abhijit Akella: Sure. Understood that. And yes, as you pointed out, it will take maybe three to four years to fully sell out this 15,000 tons capacity, is that correct?

Siddharth Sikchi: Yes.

Abhijit Akella: So probably FY '24, we could maybe expect something like 1,000 tons of sales. And then FY '25, I mean would you have like some rough utilization number in mind?

Siddharth Sikchi: Not like that because FY '23, the plant will only begin by December. The Quarter 4 of FY '24 will only go in sampling, teething issues, and all those things. So the real business will happen in FY '25.

Abhijit Akella: Right. So understood. Also, just to check with regard to growth drivers for the next two to three years, besides the HALS range, you did mention in your opening remarks about a couple of other promising products. So are those likely to contribute significantly in the next couple of years? If you could, could you please share some color on that as well?

Siddharth Sikchi: So I do not want to disclose the product line we are doing, but of course, they are into our segments of performance chemical, intermediates for Pharma & Agro. So there is an additional capex of INR 200 crores, which we have lined up for these additional businesses, which I think we will start construction from July, August this year. And these plants will all probably begin by mid of next year. So that is additional growth driver apart from HALS.

Abhijit Akella: Right. This is mid of FY '25?

Siddharth Sikchi: Yes. These are none of the existing products, more or less, these are all new products.

Abhijit Akella: Sure, sure. I got it. What about the capacities of the existing products itself like MEHQ and BHA, etc., that we have debottlenecked? Do we still have some leeway to grow over there, and could those also contribute over the next two, three years?

Siddharth Sikchi: Yes, of course. So we have leeway. There is still open volumes which we can supply. And at any given point, if we see for some reason that these capacities are to fully utilize, there is always an option to replicate the plant capacities in our UNIT 4.

Abhijit Akella: And the demand weakness that you're seeing for the time being, is that across the product range? Or is it concentrated to specific end-use industries and products?

Siddharth Sikchi: See, typically, some of the products are doing well. Some of the products are slow. So it's a combination of both. And these are cycles, these keep changing. I mean after a quarter or after two quarters, some of the businesses will pick up, some of the businesses will be slow. So it's really a combination of all of them.

Abhijit Akella: Yes, understood. Is there an expectation that we need to pass on some of the raw material cost savings we have had, starting the next quarter or so, maybe like just a timing gap between the fall in raw material cost and the negotiation of finished goods prices downward?

Siddharth Sikchi: Yes, definitely. I just mentioned that there's a combination when the commodity prices have sharply fallen and the demand is slow. I mean our customers also expect because their customers are also expecting lower prices in the cycle. We have to as we are a part of it.

Abhijit Akella: Okay. Got it. Thank you so much and wish you all the best.

Siddharth Sikchi: Thank you so much.

Moderator: Thank you. Our next question comes from the line of Krishan Parwani with JM Financial. Please go ahead,

Krishan Parwani: So just two clarifications on the previous questions. So one is, we understand that you would not like to disclose the name of the products. But just wanted to understand the chemistries that probably those products will entail. And our model would be the same? Would it be to focus on differentiated processes?

Siddharth Sikchi: Yes. So these are newer chemistries which we are doing. And these are also catalytic processes, the products also have zero discharge, zero effluents, etc. So the concept overall remains the same. And I think that is what we are going to take forward.

Krishan Parwani: Understood. And sorry, I think I'm not sure whether you have given any update on PTZ.

Siddharth Sikchi: Not yet.

Krishan Parwani: Okay, thanks. And just one last one. On the capex front, I think you mentioned about INR 200 crores of capex. So basically, can you break it down for like '24 and '25, what would be the number for the full years?

Pratik Bora: Yes. So Krishan, for this year, we are guiding for a capex of around INR 180 crores for FY '24. INR 200 crores incremental capex will go for the new products, which will largely be during last quarter of FY '24 or FY '25.

Krishan Parwani: Okay. Perfect. Thank you for answering all of my questions. All the best.

Moderator: Our next question comes from Rohit Nagraj with Centrum Broking. Please go ahead,

Rohit Nagraj: Sir, on the new set of products, so the HALS series, will our working capital requirement go up? And given that we are also targeting the exports market, so will we have to keep our inventory levels elevated given that there will be some transit time.

Siddharth Sikchi: No. Not really.

Rohit Nagraj: Okay. Got it. And in terms of the new products that you just talked about the INR 200 crores capex. So will it also have a similar kind of raw material basket, which can be sourced from domestic market, or we will have to depend on imported raw material?

Siddharth Sikchi: It will be a combination of both.

Rohit Nagraj: Right Sure. That's all from my side. Thank you and best of luck.

Moderator: Our next question comes from Arun Prasath with Avendus Spark. Please go ahead.

Arun Prasath: Thanks, just a follow-up. Sir, I just wanted to talk about PBQ. Have we completely exhausted the capacity here? And how the domestic market looks like? And what else you are seeing in the export opportunity in this PBQ? Can it be scalable. How big this molecule in the export market? Some color on the PBQ.

Siddharth Sikchi: So PBQ is majorly in agro business. Right now, that agro business is a little on a slower side. So we have some unused capacities. And we are also now supplying to some European customers. I hope that we'll see the volume growth probably in the Quarter 3 this year.

Arun Prasath: Okay. There is no domestic customers for this product?

Siddharth Sikchi: There is major domestic customers, but ultimately, these are all agro-based customers, and the demand is slow with these agro-customers.

Arun Prasath: Great. Understood. And secondly, on MEHQ, we are very confident that whenever the demand comes with, we'll be able to add replicate the existing plant and add capacities. Is it because others are not adding capacity in this product? Are we the only player who is going to add capacity in this, especially given the European players looks like they were nowhere in the capacity?

Siddharth Sikchi: So it's a very difficult question for me to answer on what others are trying to do because we keep hearing a lot of names who are trying to get into this business. Our business is to be as sharp in our price and try to get as much market share as we can. And when I said that the moment we realize that we are running out of capacities, because we do not want shortages of these products in the market, we can add up capacities in a time frame of nine months because we have done this already three times in our history.

Arun Prasath: Okay. Understood. And lastly, on the new set of products that you are going to start constructing in this year, what is the end product category for these products?

Siddharth Sikchi: So some will go into performance chemical category. These are a series of products. Some might go into water treatment chemicals; some might go into pharma and remedials.

Arun Prasath: When you say performance, it is again into the polymer or any other category?

Siddharth Sikchi: So in performances, I mean there are inhibitors again. So they will be used in a variety of industries.

Arun Prasath: Okay. But not concentrated in the polymer?

Siddharth Sikchi: No, no, not specifically into polymers.

Arun Prasath: Okay. And this set of new products, what is the capex planning for these sorts of products?

Siddharth Sikchi: Approximately INR 200 crores.

Arun Prasath: And similar asset turns and margins, that is what you're anticipating?

Siddharth Sikchi: Similar asset turn, yes, more, or less once these products reach those scales. And margins, I think these margins will be lower in the initial years then our parent businesses. But these margins will come up after a couple of years because of our improved yield efficiencies, getting premium customers on board. So it will always be a combination.

Arun Prasath: Understood. Thanks for that.

Moderator: Thank you. Our next question comes from Ankur Periwal with Axis Capital Limited. Please go ahead.

Ankur Periwal: Yes, just a few clarifications. And Pratik, if you may pitch in. So the capex for Facility 4 is INR 180 crores, wherein then we'll have the full HALS plant up and running. And the second round of capex is INR 200 crores, which is over and above the current capacity getting into new performance chemicals, etcetera, right?

Siddharth Sikchi: For the new products, right.

Ankur Periwal: For the new products. So FY '24 is INR 180 crores capex, which will be largely HALS. And then this INR 200 crore odd for the new Performance Chemicals will be FY '25?

Siddharth Sikchi: It will start partially in FY '24. But by mid of FY '25, these products will be online.

Ankur Periwal: Sure. So the revenue from these, let's say, INR 200 crores capex into Performance Chemicals will start, let's say, of FY '25? Correct?

Siddharth Sikchi: FY '26, yes.

Ankur Periwal: Yes, fair enough. And any -- if you can share product approval time frame over here, will it take three months, six months? Or it's already work in progress?

Siddharth Sikchi: Some of the product will be very quick because we are absolutely aware of those markets. We are aware of the customers. Some would be a little newer customer. So that might be between 3 to 6 months' time frame. And more products will be far quicker because we are already into antiretroviral, and this is also a product which goes into antiretroviral, and we are going to replace the Chinese source, so I think that could be a little bit quicker.

Ankur Periwal: Yes, that was my next question. Are these products replacement of some existing vendor with either Indian or international?

Siddharth Sikchi: I realized that you would ask this, so I thought I'll answer it.

Ankur Periwal: Sure. And the asset turns, as you mentioned, are similar to the current business.

Siddharth Sikchi: Between 2.5 and 3, yes.

Ankur Periwal: That's it from my side. Thank you.

Moderator: Our next question comes from Abhijit Akella with Kotak Securities. Please go ahead.

Abhijit Akella: Just one clarification with regard to the economics we should expect on the newer products in general. So while I understand that the margin profile on these will be significantly lower than what the parent company makes at least in the initial few years. From an ROC perspective, how attractive would you say they would be, would they be more or in the same ballpark as the parent company business? Or how would you see that trending over the next few years?

Pratik Bora: Yes. So, Abhijit, as the capacities reach optimal utilization level, the endeavour is 2x and target is to clock the ROCs which the parent company is clocking and then it will be a combination of asset turn, which we are guiding for 2.5x to 3x and better margin. So margin profile, as we have been guiding that as we penetrate into these markets as we get those premium customers as the utilization increases, then the margins will start kicking in, and hence, the ROCs that we are optimistic of 50% level as it is playing out in the parent company.

Abhijit Akella: Understood. Got it. And in each of these products that we are entering, we are confident that we have some sort of technical edge. That's a prerequisite for us to get into these products. Is that correct understanding?

Siddharth Sikchi: More or less, yes.

Abhijit Akella: Thank you so much and all the best.

Moderator: Our next question comes from Chetan Thacker with ASK Investment Managers Limited. Please go ahead.

Chetan Thacker: Yes. So just wanted to understand one thing, a small clarification. So FY '24, revenues will be largely from our existing product basket. '25 is when HALS started to kick in and that ramps up over the next three years. And mid-of '25, we get these new products, so that should start kicking in from mid- ‘25, '26 largely. That is a fair understanding?

Siddharth Sikchi: Fair understanding, only thing is the HALS, of course, the plant which have already commissioned for the 770 and 701. Those will be additional in this year, FY '24.

Chetan Thacker: Okay. And so what is the total capacity of this 770 and 701 that has already been commissioned?

Siddharth Sikchi: 2000 tons per annum installed capacity.

Chetan Thacker: Once the expansion comes in the other unit, the total reaches 10,000.

Siddharth Sikchi: It reaches 15,000 in total.

Moderator: Our next question comes from the line of Tanush Mehta, an Investor. Please go ahead.

Tanush Mehta: Yes. A few of my questions have been answered. I just had a very broad question that seeing the way we are clocking our margins, which are nearly industry high. Do some of our customers come to us for negotiation because seeing that the margins are high as compared to what others make in the industry?

Siddharth Sikchi: So when I also see some of my raw material suppliers clocking very high margins, I cannot go and tell them, because the margins or the prices are related to the market prices. So if they are getting at a cheaper price than mine, then there is a negotiation. If they do not get at a cheaper price than mine, then there is no negotiation in.

Tanush Mehta: Okay. That's it from my side.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Siddharth Sikchi: So once again, thank you so much for taking time out to hear our earnings call. I hope Pratik and I have been able to answer all of your queries and looking forward to again speaking to you after our Q1 FY '24. Thank you so much, and have a great evening, guys. Thank you. Goodbye.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.