



FAIRCHEM ORGANICS LIMITED

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November 21, 2024

**To,
National Stock Exchange of India
Limited**

Exchange Plaza, Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (East),
Mumbai 400051

**To,
Department of Corporate Services
BSE Limited**

Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001

Ourselves: BSE Scrip Code: 543252/NSE symbol: 'FAIRCHEMOR'

Dear Sirs,

**Ref: - Regulation 30 read with Schedule III – Part A, Para A – Clause 15(b)(ii) of
SEBI (LODR) Regulations, 2015**

**Sub: - Submission of Transcript of audio recording of Earnings concall on
Unaudited Financial Results for 2nd Quarter Ended September 30, 2024**

In furtherance to our letter dated November 14, 2024, we hereby submit, pursuant to Regulation 30 read with Schedule III, Part A, Para A Clause 15(b)(ii) of the SEBI (LODR) Regulations, 2015, a PDF file containing a transcript of audio recording of Earnings con-call held on Thursday, November 14, 2024 for the Unaudited Financial Results of the 2nd Quarter ended on September 30, 2024.

We request you to take the same on your record.

Thanking you,

Yours faithfully,

For Fairchem Organics Limited

Rajen Jhaveri
Chief Financial Officer & Company Secretary
ACS - 6615

Encl: As above

Fairchem Organics Limited
Q2 H1 FY'25 Earnings Conference Call
November 14, 2024

Moderator: Ladies and gentlemen, good day and welcome to Q2 and H1 FY'25 Conference Call of Fairchem Organics Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*”, then “0” on your touch-tone phone.

I now hand the conference over to Ms. Nupur Jainkunia from Valorem Advisors. Thank you and over to you, ma'am.

Nupur Jainkunia: Thank you. Good afternoon, everyone and a warm welcome to you all. My name is Nupur Jainkunia from Valorem Advisors. We represent the investor relations of Fairchem Organics Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the second quarter and the first half of the Financial Year 2025. Please note that Mr. Nahoosh will not be able to participate in today's call due to an emergency, but Mr. Rajen will take over on his behalf.

Before we begin, a quick cautionary statement. Some of the statements made in today's concall may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about company's fundamental business and financial quarter under review. Now, I would like to introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We have with us Mr. Rajen Jhaveri, CFO of the company. Without any

further delay, I would request Mr. Rajen Jhaveri to start with his opening remarks on the financial highlights. Thank you and over to you sir.

Rajen Jhaveri:

Thank you Ms. Nupur and good afternoon everyone. Welcome to our Earnings Call for the second quarter and first half of the Financial Year 2025. Let me first start off by giving you some of the key financial highlights. For the second quarter under review, the revenue from operations stood at Rs. 139 crores, which declined by 9% year-on-year. EBITDA for the quarter was Rs. 9 crores, which declined by 48% year-on-year, with EBITDA margins at 6.28% and the net profit was Rs. 4 crores, which declined by 61% on year, with PAT margins at 2.89%. For the first half of Financial Year 2025, the revenue from operations stood at Rs. 304 crores, which declined by 3% year-on-year. EBITDA was Rs. 31 crores, representing a growth of 7% year-on-year, with EBITDA margins at 10.05%. Net profit for the period was Rs. 18 crores, which has grown by around 9% year-on-year, with PAT margins reported at 5.9%.

I would now give you operational highlights for the period under review. On the operational front, for the quarter under review, sales of finished goods declined by 15.60% and 15.90%, respectively in terms of volume and value, on a Q2Q basis. The demand for linoleic acid/soya fatty acid from the paint sector, remained low, especially in the second half of the quarter, impacting the financial performance. In the month of September 2024. The Indian government increased custom duty by 22% on certain types of crude vegetable oils, resulting in higher raw material costs for our dimer acid production. The custom duty on dimer acid import remained the same and so the company had to absorb higher raw material cost - both to stay competitive as well as retain its market share in the domestic market. As a result, the EBITDA margin declined to 6.28%, mainly due to relatively higher raw material costs as a percentage to sales and also absolute decline in revenues also. Having said this, the silver lining still continues to be that the company remains quite optimistic about its value-added product, Isostearic acid. With that, I open the floor for a question-and-answer session. Thank you.

Moderator:

Thank you very much. The first question is from the line of Pratik Kulkarni from Kamayakya Wealth Management. Please go ahead.

Pratik Kulkarni: I had a few questions. I mean, I had 2-3 questions. First, like you said that the duty on the raw materials has been increased. It is almost 22% now. So, is my understanding correct that we are not able to pass on it to the dimer acid prices due to imports from dimer acids coming at very low prices?

Rajen Jhaveri: Yes, that is right. Because in China nothing has happened and in case of dimer acid, we are competing with imported dimers from China. So, China prices remain same and custom duty on the dimer import has also remained same at 7.5%.

Pratik Kulkarni: Okay. So, what would have been the difference the import duty on raw materials did not increase. What would have been the difference between the import price of dimer acid and our selling price of dimer acid?

Rajen Jhaveri: See, our policy all these years has been that whatever is the imported price, CIF landed cost of Chinese dimer acid plus this non-cenvatbale custom duty of 8.25% and whatever amount comes. Suppose it comes to Rs.100, then our price would be Rs. 98 or Rs. 99. That is our formula. So, since this custom duty has remained same and Chinese import price also has more or less remained same, the price at which we can sell also has more or less remained same. But the raw material which we need for making this dimer acid, the price of that has increased. So, we are compelled to absorb this additional raw material cost if we want to make and retain our market share in dimer acid and we have decided to maintain the price to retain our market share because we believe that one day, may be one quarter later or may be few months more later, government will have to reverse this. This cannot go on forever. Once the farmers sell their produce of whatever oil, seeds, soya, etc., government may come out with reversal of this duty. That is what we hope.

Pratik Kulkarni: And what would be expected timeline for the same?

Rajen Jhaveri: We do not know. This is a government decision. We did not know when this notification came on 14th of September. We came to know on that day only that government has come out with this. So, when the government will withdraw on that day only, we will come to know that government has withdrawn this. We are not that big enough to have any sense in advance about this.

Pratik Kulkarni: Looking at some good points like Isostearic acid, how is our demand panning out there? How are our shipments doing there?

Rajen Jhaveri: See, why we are sticking to this dimer production, another reason is this Isostearic acid. When we make dimer acid, we simultaneously get monobasic acid and monobasic acid is the basic raw material for making Isostearic acid. Isostearic acid has given a tremendous good response from various customers and many such approvals are expected in the coming months. So, we are quite optimistic about this quantum sale of Isostearic acid and that is why we want more of monobasic acid and if we want more of monobasic acid, we will have by default more of dimer acid and if we want to have more of dimer acid, we will have to sell it. So, we have to retain our market share by matching the competitive price.

Pratik Kulkarni: Okay. So, 2 questions ahead. So, how is the demand from the paint sector? You mentioned in your presentation that the demand has been low.

Rajen Jhaveri: Demand from the paint sector, particularly from middle of August onwards, was very low and in case if you have happened to see the commentary and the results of Asian Paints, which is having the largest market share in Indian market, the CEO also said the same thing, particularly decorative paint and our linoleic acid to Asian paints, etc., and other companies, it goes for decorative painting and there was a lack of demand for decorative painting and in fact, at least for the coming six months also, CEO has somewhat sounded pessimistic about this paint sector. Of course, we are not going by that commentary, but that is what I am telling you that that is what Asian paint CEO has said 2-3 days back.

Pratik Kulkarni: Okay and the last question would be, we had given a guidance of 10 to 15 percent volume growth for FY'25. So, is that the guidance still same or are we revising it?

Rajen Jhaveri: We are not as of now revising it, but it will be difficult to achieve considering that the second quarter did not achieve that volume growth and that is unlikely that the third quarter also may achieve that kind of volume growth because unless and until government reverses this, we will be going somewhat slow on this. We will try our best to explore other means and achieve the growth if possible, particularly during fourth quarter, whatever growth is possible.

Moderator: Thank you. The next question is from the line of Harini Dedhia from Tamohara Investment Managers. Please go ahead.

Harini Dedhia: Sir, this notification came in for the excise duty hike on 14th September. So, during the 15 days in a quarter, would that have affected our gross margins by so much?

Rajen Jhaveri: No. That gross margin effect was mainly because of lack of demand from paint sector. That is what I said that from middle of August onwards, there was a lack of demand from the paint sector. I understand that this 14th September notification will have limited impact for the quarter per se, but there was a lack of demand per se as such though, but from the middle of August, it was more pertinent.

Harini Dedhia: Okay. Got it and sir, Isostearic, we had mentioned in the presentation that we started shipment, so that is in Q3 itself, right? So, in the month of October, we would have started shipment or even earlier?

Rajen Jhaveri : No, we have started shipment from January 2024 onwards in a small way and now it is getting momentum and we hope that by the beginning of the next financial year, we will achieve quite good volume. The third quarter also, the October-December quarter will have perhaps the same volume as this quarter, July-September quarter. But from January-March 25 quarter, as we will receive more of approvals, because at many places, at many companies world over, where our samples have gone many months back, we are awaiting the approval. Because this is a long-term process, our Isostearic acid sample, they would use to make their product and then it will undergo some test of a certain period, may be 2 months, 3 months, 4 months, depending upon the company's policy and after that only, we will get the approval. So, we are expecting approval from many of them during the quarter of January-March, 2025 and we, on our part, are gearing ourselves to meet the demand of Isostearic acid also. So, that is what we have mentioned in our presentation also, that isostearic acid under these present circumstances of lack of demand from paint sector and increase of custom duty, Isostearic acid still continues to be our silver lining.

Moderator: Thank you. The next question is from the line of Nirag Shah from Exemplar Investment. Please go ahead.

Nirag Shah: Yes, thanks for the opportunity. What has been the sales volume for the quarter?

Rajen Jhaveri: Sales volume for the quarter, I think it is already mentioned in the presentation. If not mentioned, I will tell you. Sales volume for the quarter, Quarter 2 was 14,000 plus tons.

Nirag Shah: and what is the contribution of linoleic soya fatty acid over Q2 sales as also that of dimer acid?

Rajen Jhaveri: See, typically between linoleic acid and dimer acid, in terms of value, the contribution ranges from 65 to 68% and this quarter also, the contribution between linoleic acid and dimer acid put together was about 68-69%. In the previous quarter also, it was around 67% put together. So linoleic acid and dimer acid, as of now, still continue to be our prime product. Going forward, Isostearic acid also will become our prime product. But as of now, these two are the prime products.

Nirag Shah: Since we are almost at the middle of Q3, and after the end of September, we have seen a significant rise to the tune of almost 35% in global palm oil prices, as also soya. So how do you see it impacting our sales and margins this quarter? Will it translate to higher realizations for Q3, for our end products?

Rajen Jhaveri: So, we are not into 'refined oil' business. For us, the raw material price has increased and as I said, dimer acid which contributes nearly 24-25%. The raw material price has increased, but we are not able to pass it on because we are competing with Chinese dimer and there, our contribution is going to take a big beating. So there is no question of increasing the margin during October, because already 45 days have gone off this quarter. So October-December quarter, we cannot expect to increase the margin compared to July-September performance.

Nirag Shah: But I think global end product prices are based on palm oil, right?

Rajen Jhaveri: That depends. Palm oil, of course, has risen substantially after this duty announcement. We understand that there are 2 or 3 reasons for this. First,

Thailand perhaps has banned the export of palm oil from their country and Indonesia has perhaps diverted some of its palm for biodiesel. Earlier it was allowing some blending of 30%. We understand that it is going to allow more percent from January, 2025 or somewhere onwards. It is going to allow more percent. So exports from Indonesia also may come down. And India, being a highly populated country, is approximately importing 50-60% of its vegetable oil from countries like Indonesia, Malaysia, Russia, Ukraine, which are under war, and Brazil and Argentina for soya, Russia and Ukraine for sunflower, and Indonesia and Malaysia mainly for palm.

Nirag Shah: And what is the status of the project with respect to that new raw material, the new product that we are planning to completion?

Rajen Jhaveri: Yes, that pilot plant work is going on as of now. So it can go on somewhere in the Financial Year 2025-2026 only.

Moderator: Thank you. The next question is from the line of Chirag Vekaria from Budhrani Finance. Please go ahead.

Chirag Vekaria: This Isostearic acid, as said in terms of turnover, how much would that be for quarter 2? If you can give some number?

Rajen Jhaveri: Yes, I can give you some numbers. I don't mind giving the numbers for all these things, but all the participants, you will have to understand one thing, that whatever we are sharing here, whatever we are talking here, we are required to share this audio tape on stock exchanges. Then we are required to share this printout also with the stock exchanges and for linoleic acid, our competitors, Indian competitors are there, they are unlisted competitors. But they know that we are listed, we are having this quarterly earnings call, you people are asking, and I don't mind you people asking the question and you people are asking so many questions about the quantity, volume, etc., etc., and they are listening and they are taking their business decisions.

Chirag Vekaria: Sir, then if you can help me understand, the profitability that has come, the margins that have come for this quarter, is it because of the contribution of Isostearic acid or linoleic acid?

Rajen Jhaveri It (Isostearic) is a value-added product. ee, you have to understand one thing, Mr. Chirag, like a petroleum refinery, which purchases brent and makes different products viz. petrol, diesel, aviation fuel, furnace oil, etc., etc., we also purchase a waste product from the vegetable oil refinery and extract different fatty acids and upgrade them. Isosteric acid is a value-added product from monobasic acid. For almost 20 years, from 2002 - 2003, till 2023, for 20 years, we have been selling monobasic acid. We started working on upgradation of monobasic acid in our R&D somewhere in 2019 or so, and now came out with a value-added product. So, what I am trying to say is that from one raw material, we are making these value-added products. So, there is no separate contribution. The contribution, the profit, it is not based on any particular product. It is a combined composite thing that we are making.

Chirag Vekaria: So, sir, for us, what is critical going forward is the duty component, right?

Rajen Jhaveri: Very critical. For us is the reversal of this hike in duty by the government is very critical. Otherwise, according to us, we were well on the course of achieving better performance based on our Isostearic acid achievement. But this government notification has created a havoc. Now, we will have to wait for this reversal of government and of course, paint, this demand from paint. But we expect that ultimately India being a 150 crore population country, demand for paint ultimately will get back, may be one quarter late or whenever.

Chirag Vekaria: With some new players coming up, wouldn't the off take be more with new players coming in paint segment?

Rajen Jhaveri: But see, supply would be more, but the demand on consumers and mind one thing, we have the approval from other paint companies also. So, don't think that since Asian paint may lose some share to other competitors, but we are not worried on that. We are supplying to Berger also. Our samples have been approved by Grasim also. We are supplying to alkyd resin manufacturers who ultimately supply to ICI, etc. also. So, it is not that we are exclusively supplying to Asian Paint Limited. But Asian Paint Limited has been our major customer.

Moderator: Thank you. The next question is from the line of Narendra from Robo Capital. Please go ahead.

Narendra: Thanks for the opportunity. So, sir, given the headwinds that we are facing, right? So, the current margin of 6%. So, I believe unless the government policy changes and the paint demand comes back for this year, the recovery doesn't seem possible, right? So, the margins could be around this level only, right?

Rajen Jhaveri: Mr. Narendra, earlier whatever we discussed, there are 2-3 points on this. First we said that Isostearic acid, we are quite optimistic for January - March 2025 quarter. If that happens, it will help us in improving our margin. As far as paint sector demand is concerned, that also we are hoping that it can go worse even for one more quarter of October - December. But from subsequent quarter, it should revive because ultimately India is a 150 crore population country and export market also could be there. So, that is another thing as far as January - March 2025 quarter is concerned. As far as government duty is concerned, we cannot say anything because it is absolutely government's decision. But as we earlier said in response to someone else's question, October - December quarter, yes, October - December quarter could be impacted, most likely impacted because 45 days have already gone.

Narendra: Okay, understood, sir and just, what if everything falls in place, what kind of margin should we expect? I mean, just...

Rajen Jhaveri: Then, whatever we had earlier said that we will be aiming to achieve 14-15% EBITDA margin, we will be again well on course to achieving that kind of margin of 14-15%.

Narendra: Okay and any more details that you could give on the.

Rajen Jhaveri: See, then it would become, there are two things. One, it would become UPSI, more detail and another thing, just now what I said that our competitors are having more post-mortem of whatever we are sharing than the participants in this call.

Narendra: No, no, sir, I am asking about the new raw material, if you could..

Rajen Jhaveri: New raw material, that work is going on. At laboratory scale it is over. Now we have purchased the pilot plant, so pilot plant work would start and then the plant

work would start in the Financial Year '25-26. Plant erection would start after the successful pilot plant. Plant erection would start in the Financial Year '25-26.

Moderator: Thank you. The next question is from the line of Damodar Baliga from DB Investments. Please go ahead.

Damodar Baliga: Sir, the first question is, now as you rightly said this notification on the custom duty has come in 15th September, so the drop in the gross margin is mainly due to the drop in demand from the paint segment. This understanding is correct?

Rajen Jhaveri: Drop in the margin is substantially due to lack of demand from the paint sector and partly due to this notification.

Damodar Baliga: Partly, but now my question is, now that you will have this notification effect for the full three months, for the Q3 you said it will get impacted, so that means the gross margin would come down drastically again further, let's say up to 12% or so for Q3?

Rajen Jhaveri: We are trying to do some alternative thing, again it is a business kind of a thing, to ensure that our performance do not further deteriorate. You are quite worried about the performance may further deteriorate in Q3 compared to Q2 because it will have a full impact of the duty, I can understand that, but on our part, we are trying our best to ensure that our performance remains at par at Q2 level.

Damodar Baliga: Actually, my next question was that only, any action taken by the management to reduce this impact? So is that utilizing the alternative raw material, but anyway you said that you are putting up the plant only next financial year, so that also will not come handy, correct?

Rajen Jhaveri: Yes, that will not come handy, but we are exploring other things, which I cannot disclose as of now. We are trying our best to ensure that the performance does not further deteriorate. Let us see how it goes.

Damodar Baliga: Okay, fair enough sir. Sir, my second question is regarding the paints, out of the linoleic acid that we sell, what is the percent of that sales to Asian paints? Percentage wise you can tell me, how much we are dependent on them?

Rajen Jhaveri: Approximately, out of our total sales, approximately two-thirds would be to Asian paints limited.

Damodar Baliga: Okay, my question is, in case if other paint manufacturers pick up in the decorative segment, is there any chance we can supply to them because you said we have already been approved by them?

Rajen Jhaveri: No, we are supplying to others also in small quantities already. We have been approved by everybody.

Damodar Baliga: No, no, then why, see, once we had increased our capacity...

Rajen Jhaveri: Comparative prices will be the main criteria compared to Asian paints.

Damodar Baliga: No, agree, instead of keeping it idle or running at a lower capacity, may be it makes sense to supply to other players, just to...

Rajen Jhaveri: We are not keeping it idle. That particular raw material, we are not keeping it idle.

Damodar Baliga: Okay, so that means then why the sales are down? Because you said sales are down because of the dropping demand from the paint segment. So, what I was thinking is that you are producing, let's say, 100 kg, you are able to sell only, let's say, 60 kg. The remaining 40 kg, instead of keeping it, we can sell it to other paint players.

Rajen Jhaveri: But that other paint company, if it gives us the desired margin, then only we will produce. That is what I am trying to tell you.

Damodar Baliga: Agreed, but even if they are giving lesser margin, instead of keeping it in our storage, does it not make sense to sell it to them?

Rajen Jhaveri: It should completely recover our cost and then it should have some margin. Otherwise, there is no point in running the machine. In paint sector, there is no customer like Asian Paints Ltd. Let me tell you upfront. In terms of everything. fair dealing, timely payment, etc. everything, everything.

Damodar Baliga: Okay, fair enough. Sir, our capacity is based on the raw material processing is around 1,20,000 metric tons. So, what is the capacity utilization as on 30th September?

Rajen Jhaveri: 1,20,000 metric tons, we have already earlier said that we have now divided it into 2 parts. 80,000 for our present set of activities and 40,000 we have earmarked for that new set of products which is under development. So, that 40,000 is now earmarked. So, we are now talking about the capacity utilization out of these 80,000 and as I said, what we produce, what we process during this is approximately 14,500. So, annualized, you can consider annualized 60,000. So, against 80,000 tons of installed capacity, our annualized, based on this quarter was 60,000. So, 75% utilization you can consider for this quarter.

Damodar Baliga: Okay. So, these 40,000 means which you have earmarked for the development of the new products means you are not utilizing for the regular production, right?

Rajen Jhaveri: Yeah, because those equipments, some of the equipments we have earmarked for that new product and the balance equipments we will be procuring after the successful pilot plant runs.

Damodar Baliga: Okay. So, that means if you are taking it as a 75% capacity utilization, so that means we are having only 25% additional spare capacity, if there is any further increase in the demand, correct?

Rajen Jhaveri: Yeah, that is right.

Damodar Baliga: Okay. So, next is, are we doing any other CAPEX during the current financial year?

Rajen Jhaveri : Not too much, except for solar. In case if we decide to go for solar plant, then there could be a CAPEX of may be up to Rs. 30-35 crores for solar. Otherwise, for a present set of activities, whatever expense, CAPEX we have to incur, most of the expense we have incurred and maybe some 5-10 crores is left out, which we will be incurring may be by March 2025 from our internal accruals.

Damodar Baliga: Agreed.

Damodar Baliga: So, how much it could become, sir? How much approximately other than this solar?

Rajen Jhaveri: About 5 crores only by March 2025.

Damodar Baliga: Then, sir, why I was asking this question is, there is an increase in the debt as on 30th September?

Rajen Jhaveri: There is no case of increase in debt, I will tell you. Earlier, we were utilizing this Asian Paint bills discounting facility, whereby we were knocking off the receivables on one side instead of booking the borrowing because banks had no recourse to us on the due date. They had recourse to Asian Paint Ltd. So, under the accounting guidelines, we were not required to book it as a debt. So, though we were availing the facility, we were not booking it as debt. On the contrary, we were knocking out the receivables. But now, we are not utilizing that facility. So, now there is receivables on one side of Asian Paints Ltd. for 60 days and on the other side, there is a short-term borrowing.

Moderator: Thank you. The next question is from the line of Keval Shah from Jeetay Investments. Please go ahead.

Keval Shah: Sir, you said that we had 15% drop in volumes and 15% drop in revenues this quarter. We see gross margin in terms of percentage basis. So, while drop in revenue and volume is fine because obviously the paint industry had not done well. But, sir, if we compare Q2 with Q1 while have gross margins dropped from 30% to 24%?

Rajen Jhaveri: Gross margin also dropped because there are 2 things. One is this duty increase during last 15 days or so and another thing is when there is a lack of demand from the paint sector, generally what would happen is whatever limited quantities they would want to buy, they would try to bargain hard with us. You take any business. If it is passing through a bad time, what would happen is your sales price would tend to be lower than the normal sales price because the buyer is in a commanding position. So, these are all business secrets. As I said earlier, if we discuss all these things, all these Asian paints and our competitors, they only would come to know. You would be satisfied with the answer. But what we are sharing is ultimately hurting us and ultimately hurting our shareholders only and the investors only.

Keval Shah: No, no. I understood that, sir. My only thing was that the effect of the duty hike was only for 15 days.

Rajen Jhaveri: I understand. But in case if you are doing business, you would have undergone this particular phenomenon about which I talked.

Keval Shah: Right and we are continuing to see that, right, sir? For Paints, not for the Dimer

Rajen Jhaveri : . We are continuing to see that and continuing to see that in a big way.

Keval Shah: Okay and then, sir, a second question was on Isostearic acid. When, let's say in quarter four, when we come up with we get right approvals and the orders are there and we can start shipping in full sort of full output capacity. Sir, do you think that the margin that I don't want a quantitative number because you correctly mentioned that it's kind of, it would not help either the management or the shareholder. But, sir, just like, just some color that when we start doing it in full capacity, do you think it has ability to offset whatever hit that we have got due to the duty hike in dimer acid? Do you think that it has the ability in consolidation to get the margins to around 12 to 15 percent even if the duty hike persists, even if duty hike is not reversed?

Rajen Jhaveri: Up to 12 percent, yeah, it has the ability to hit the margin up to 12 percent even if the duty hike is not reversed. Only if the paint from demand is revived and Isostearic is, we receive approvals from so many customers, then, yes, it has the ability to go up to 12 percent.

Keval Shah: And then, sir, do we have any sort of an indication that we should be receiving good amount of approvals like Q4 of this financial year, like Q4 or maybe starting of next financial year? Do we have the right indications there?

Rajen Jhaveri: We are hoping that. It is difficult because, see, these are all foreign developed countries, Europe and USA and Japan and Singapore and those kinds of countries. Now, you can understand that they may have their own protocols for granting approvals, etc.

Keval Shah: Right. So, that still may, the trial run process...

Rajen Jhaveri: We are hoping that during January-March 2025 quarter, we should be receiving more approvals.

Keval Shah: Okay, right.

Rajen Jhaveri: And we are now targeting, one more thing, perhaps in the previous quarter we might not have discussed. Our initial shipments of this Isostearic acid from January onwards till date, it was going for lubricants. But now we are targeting that costlier market of cosmetics and all these approvals are required for cosmetics and since cosmetics are to be applied on the human skin, it will need more approvals. Lubricant is one thing and cosmetics, it is like, it is like of a semi kind of a pharma US FDA. Because this drug, because humans consume the drug, this US FDA, etc. requirement is there and similarly, if you want to apply this Isostearic acid in / use in cosmetics, the cosmetics are ultimately used by the human beings only and that is why they need to be more cautious before granting their approval and that is why it takes more time. But it is a costlier product against that. Let me tell you one thing. Compared to lubricants, the application for cosmetics can fetch a somewhat higher value.

Keval Shah: Okay. And lubricant in itself would be much higher value, let's say.

Rajen Jhaveri: In absolute terms, it is the highest priced product of our entire product basket.

Keval Shah: Right. Understood, sir and sir, the last question was on the 40,000 tons capacity that we have earmarked for the new raw material. What stage of development are we in right now for that?

Rajen Jhaveri: As I said, it is done in laboratory at laboratory scale. Now, we have procured pilot plant and the pilot plant work would start and after the successful pilot plant run, we will proceed with the erection of the plant in Financial Year 2025-2026.

Keval Shah: Okay. And sir, the application industry for the new raw material, have we discussed that? Is it something that you would want to discuss at a later stage?

Rajen Jhaveri: No, no. Because if we tell you what is the application of this, then everybody would come to know what is the product.

Keval Shah: Okay. But it is very much in line, right?

Rajen Jhaveri: It is very much within the oil, that our core competency only. We are not going for something that we are into this oil and fat business and we are going into cement. No, no. Nothing of that kind of a thing. It is overall within these specialty chemicals, specialty oleochemicals only.

Keval Shah: Okay. Understood, sir. Got it. Thank you, sir.

Rajen Jhaveri: And we are going to be the first company in India to make these kinds of products.

Moderator: Thank you. The next question is from the line of Ashish, an individual investor. Please go ahead.

Ashish: Yes. Thank you very much for giving an opportunity to speak. We are very disappointed with the result presented by the company due to the government policy.

Rajen Jhaveri: We are also equally disappointed.

Ashish: Yes. And can you tell me how could you say that this duty will be reversed?

Rajen Jhaveri: We are not saying duty will be reversed. We are hoping that once the farmer sells their produce, government will have to consider reversing this duty because it has already increased the prices of all the oil. See, government is trying to balance between farmers on one side and consumers like you and me on the other side. With this imposition of duties, all this soya oil price which was ruling around Rs.100 has already become Rs.130-134. So ultimately, we will end up paying more price for this and that would get reflected in the inflation. See, October inflation has already risen and if it continues, it will have further effect on the inflation. So, government may be forced to take the decision once farmers are through with their inventory. We are not saying. We do not know. We are not part of the government.

Ashish: So, we are hoping only, right? We are hoping

Rajen Jhaveri : . So we cannot say whether government will reduce or not. Nobody can say, right?

Ashish Yes, I agree. So how will compensate this loss of duty with other products' margin? Is it possible to compensate this margin with other products or any new product line or any innovative product by the end of this year?

Rajen Jhaveri: We already discussed this. Many of the previous speakers raised this point. We already discussed this that Isostearic acid can give as additional contribution.. Revival from paint sector can give additional contribution and as far as this is concerned, it is hardly we can do anything. Of course, we are exploring in our own way. But it is at a very uncertain stage and it is difficult to say that how it can go. But till the government reverses its duty, this absorption of the additional raw material cost by us would remain, would be there.

Moderator: Thank you. The next question is from the line of Mirav Gosalia, an individual investor. Please go ahead.

Mirav Gosalia: So, the first half, if you see the balance sheet, we have seen that the trade receivables has gone from, like, from FY'24, it was around, like, 55 crores and in H1 25, it is around 80 crores and current borrowings have also increased. So, is it the thing that, like, not just we are able to pass on the prices to our customers, but also we will have to, like, give more lenient credit terms to them as well to maintain our market?

Rajen Jhaveri: So, you were on the call about 10-15 minutes back also, because one of the speakers asked this question, and I said that what arrangement we earlier had with the Asian Paints and what we are doing. So, because of that, now we have higher trade receivables on one side and higher borrowing on the other side. That is one thing. The other thing is this Isostearic acid which we are selling is selling to European and U.S. customers, where we have to extend the credit. They are all big companies. No need to worry as far as recovery of money is concerned. They are all big companies and we are required to extend additional credit compared to what we have been generally extending for our prime products in Indian market and that is why these higher trade receivables and going forward, these trade receivables will further increase as we increase the sales of Isostearic acid. But according to us, as far as European and US customers are concerned, we are not quite worried on that. Because they are big companies.

Mirav Gosalia: Okay. Right and also, sir, about the new product which you are about to start with, is it a high value and a high margin product?

Rajen Jhaveri: It is a high value product. Whether it is high margin or not would be known only after the detailed study is done. Detailed study in the sense that after the pilot plant results are available. Because on the basis of lab scale, you cannot work out the economics. Pilot plant would give better indication. Because yields are very important and in pilot plant, what kind of yields we are getting, that is very important. Based on that, margin would be decided.

Mirav Gosalia: Right. Sure and so the current capacity for Isostearic acid is around like 2000 tons per annum, right?

Rajen Jhaveri: Current capacity is more than 2000 tons per annum. We can go up to 3000 tons per annum.

Mirav Gosalia: Okay. Sure and so if the demand goes up, can we shift our capacity more to Isostearic acid if we get the demand and the approval?

Rajen Jhaveri: No. Isostearic acid is a value-added product from monobasic acid. So, if more monobasic acid is available, then only more Isostearic acid will be available and for more monobasic acid, you will simultaneously get more dimer acid. So, if you are able to sell more dimer acid, then only you will be able to get more monobasic acid and then only you will be able to get more Isostearic acid. So, everything is linked to that extent and we are going in that manner only. As of now, though our Isosteric acid capacity is 3000, but we are already working out as to how we can increase the same in future if the demand further increases.

Moderator: Thank you. Ladies and gentlemen, you may press star and one to ask a question. The next question is from the line of Damodar Baliga from DB Investments. Please go ahead.

Damodar Baliga: Sir, this new product where you have earmarked that 40,000, you said the pilot plant would be constructing from next financial year. So that would take minimum 6 to 9 months to construct, then commissioning. Thereafter only you would be requiring that 40,000 capacity, right

Rajen Jhaveri: Yeah. That erection etc. may take up to 9 months. You are right correct.

Damodar Baliga: So that means in the meantime if there is any increase in demand, can we utilize that 40,000 or not?

Rajen Jhaveri: Out of that 40,000, at the most we can utilize up to 10,000.

Damodar Baliga: Okay. Fair enough. Sir, this solar, you said there is an investment of 30 to 35 crores. Now question is when you will be taking a decision and how much saving it will be there for the company?

Rajen Jhaveri: As far as saving is concerned, the solar tentative working which we have done, it is having a payback period of 4-4.5 years. So, the present ruling interest rates are around 9%. So, 4-4.5 years is a very good period for payback and as far as implementation period is concerned, we have identified 2 pieces of land, but you will be aware if you are based in Gujarat or maybe anywhere in India, this land title etc., particularly in rural area, how difficult it is. So, once we identify, once we zero in on a particular piece of land out of 2-3 options which are available and subsequently the title, certificate etc., that process itself will be the main thing. Otherwise I understand that implementation of solar plant per se, once the title is cleared, land registration is done, payment is made etc. and it is handed over for the installation, it should not take more than 60 days. That is what I understand.

Damodar Baliga: Okay. And how much savings it would give us, sir?

Rajen Jhaveri: I said it is having a payback period of 4-4.5 years. Whatever we consume here at our factory and whatever we generate at the solar plant, we have to pass on that unit to the Uttar Gujarat Vij Company Limited and we get the credit for that. Presently we are getting power at Rs. 9.75 per unit. So we will get the credit of 9.75 provided it is matching. In case if it is an excess generation for any reason, then the excess generation credit would be only Rs. 2 or 2.5 rupees only. But generally that would not happen unless our plant has remained closed due to any reason and during that period if there is a generation, otherwise there is not likely to be such kind of a case. We have worked out accordingly only.

Damodar Baliga: Okay and the investment is on the higher side because we are purchasing the land also, correct?

Rajen Jhaveri: Yes, we are purchasing the land also. We are purchasing the land also. That is why.

Damodar Baliga: Okay. Sir, there are a few years back we had purchased a plant in one of the industrial areas, so that has remained vacant only as on date?

Rajen Jhaveri: Yes, it is vacant only as on date.

Damodar Baliga: So there is no plan for any immediate usage of that?

Rajen Jhaveri: No, no plant immediately because in case if for any activity you create a separate plant there, it will entirely entail that additional setup cost, etc. So till such time we can absorb whatever we want to do at our present plant, we would prefer to do here only. You will understand that if you put up an entire different setup, that additional cost, what kind of additional cost it could be.

Damodar Baliga: True. So lot of infrastructure and basic, so all that would be.

Rajen Jhaveri: So we are trying to utilize this as a first thing by making space wherever available, wherever there is an opportunity, going from horizontal tanks to vertical tanks, etc., etc., doing those kinds of things.

Moderator: Thank you. The next follow-up question is from the line of from the line of Chirag Vekaria from Budhrani Finance. Please go ahead.

Chirag Vekaria: I wanted to know, sir, you have said that you have a spare capacity of, additional capacity of 40,000 tons and then you have mentioned that you will be erecting a plant in FY'26. Can you clarify, sir? I got a bit confused.

Rajen Jhaveri: No, no. We have earmarked the capacity with some equipment. That additional equipment for that particular set of products are to be obtained and that would be decided based on the pilot plant.

Chirag Vekaria: Okay. So, sir, in case, you move ahead with this plan, how much would be the CAPEX then for the new machinery and all?

Rajen Jhaveri: That also it is difficult to accurately say anything about that. Only our guess work, which could be plus, minus, whatever, it could be additional 35-40 crore, but it is, as I said, it could go wrong anyway. This is very preliminary estimate and based on the pilot, after the results of pilot plant are available, because yield in this particular thing is most important and for obtaining that yield, what kind of equipment we will need. See, if the equipments are custom made, then it may take longer also because the equipment manufacturer will need more time for that. So, everything would be known only after the pilot plant test is completed.

Chirag Vekaria: Okay and sir, second thing on this duty, sir, if this duty was to persist, would it make a case for increasing in the price of dimer acid then?

Rajen Jhaveri: It will not be possible because then, to an extent, it will be possible because all the Indian consumers would be wanting to keep us also as one of the sources. But what will happen, presently our share is 65-70% and imported share is 30-35%. That ratio may get reversed. Chinese import would become 65% and our share will become 35% if we increase the price beyond what is the landed cost of Chinese dimer because otherwise, their ingredient cost also will go up.

Chirag Vekaria: Sir, qualitatively, the dimer that you supply vis-à-vis the Chinese one...

Rajen Jhaveri: Matching.

Chirag Vekaria: Okay. So, it is an arbitrage then. Okay, sir. Thank you.

Moderator: Thank you. The next follow-up question is from the line of Damodar Baliga from DB Investments. Please go ahead.

Damodar Baliga: Sir, I had this question regarding increasing the tocopherol concentration. So, we are not focusing on that?

Rajen Jhaveri: Yeah, we are not focusing on that as of now. See, because world over this toco business is controlled by- more than 80% business is controlled by these 3 giants, 3 major US companies, Cargill, ADM and earlier Cognis, now it is taken over by Kensing Solution. These 3 companies controll 80% of mixed tocopherol market in the world. And further, this tocopherol business is a cyclical kind of a business as far as its pricing is concerned. Because we are in this business since 1996. We

started only with the exclusive business of tocopherol only in 1996 and in September 2000, we received the first shock of a 60% overnight drop in the price. So, we know this business more and about 5-6 years back only, Shri Nahooshbhai sensed this particular thing that this has been the history of tocopherol business, he decided to focus more on fatty acid business and decided to expand for fatty acid business only. . Because we have been doing this business and because we want to remain in this business, whenever we get orders from these US customers, whenever they have a short supply and they approach us, then only we make the tocopherol concentrate and supply to them. Otherwise, it is not that focused area, though it continues to be in our product line.

Damodar Baliga: Okay. But you had some problems in sourcing the raw materials. So, you have been

Rajen Jhaveri: Because raw material, it comes out in a very small quantity It is 0.15% or 0.20% only of the crude soya oil refined by these refineries. So, the quantity itself and there are already 2-3 other players in this. There is space for only one player and there are already 2-3 players in this business. We doubt whether those 2-3 other players are also making money or not. But we, on our part, have decided to remain focused on the fatty acid business.

Damodar Baliga: Okay. Lastly, on the Isostearic acid, is it possible for you to tell us how much sales we can expect in 2025 and 2026? If you don't want to give us the volume, that is okay. Can you just tell us how much in value terms we can expect in 2025 and 2026?

Rajen Jhaveri: Well, in value terms, financially, in 2025-2026, it can go up to any amount. It can go up to, I will tell you, Isostearic acid can go up to... at peak capacity of about 3000. I don't know when we will achieve this, but theoretically I am saying, at peak capacity we can go up to Rs. 150 crores.

Damodar Baliga: And is it possible to tell us how much we can do in FY'25 at least?

Rajen Jhaveri: FY'25 would depend on what kind of approvals we have and all.

Damodar Baliga: So, if you get all the approvals, let's say, by April, then FY'26 itself we can achieve this,

Rajen Jhaveri: no, sir? , as of now, our capacity, as I said, we are gradually ramping up the capacity and even if we receive the approval, the ordering process could be slow. Initially, they may take 1 container only, and then they may be using 1 container. See, the approval will be in a multiple stage. As of now, they are approving the samples. Then they would take the full production lot and the production lot would reach, nowadays, after 45 days, it would reach US, from the seaport and after that, it will reach their plant and then they will use it. They will make their product and again that will go under testing etc. So, it could be gradual. Once they are fully satisfied about our quality on a consistent basis, then only the full kind of orders will be received. See, it is a difficult product. In the world, only 4 companies, if I correctly understand, only 4 companies are making this Isostearic acid. So, it is not an easy product.

Damodar Baliga: Okay. So, that means it is gradual. Maybe by FY'27, at least, we can reach that figure, based on whatever you are saying. Sir, and lastly, about this alternative raw material, that we can expect by FY26 to be ready, let's say by December 25?

Rajen Jhaveri: That is what I said. Everything would depend on the result of pilot plant. I think once or twice I said that yield is very important in taking the decision. So, that we will come to know only after the pilot plant result is available.

Damodar Baliga: Sir, this pilot plant, what you are talking is, it is for the alternate raw material also, as well as for that value-added products also. Both we are using the same pilot plant?

Rajen Jhaveri: Which value-added product? Value-added product part is already completed. We are now talking of another set of, that 40,000 per year capacity only, for the pilot plant.

Damodar Baliga: So, what I am saying is, the pilot plant is same for both these purposes or it is different for each one of them?

Rajen Jhaveri: From that raw material, we are going to make 2 products, which are novel products. Again, we will be among the first in India. That is what we are talking of from one raw material two finished products.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question. I now hand the conference over to the management from Fairchem Organics Limited for closing comments.

Rajen Jhaveri: Thank you all for participating in this Earnings Conference Call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR Manager M/s. Valorem Advisors. Thank you.